# LEGISLATIVE SERVICES AGENCY
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## FISCAL IMPACT STATEMENT

**LS 6297** | **NOTE PREPARED:** Dec 17, 2007
**BILL NUMBER:** SB 17 | **BILL AMENDED:**

**SUBJECT:** Redevelopment commissions and TIF.

**FIRST AUTHOR:** Sen. Kenley | **BILL STATUS:** As Introduced
**FIRST SPONSOR:**

**FUNDS AFFECTED:** ___**GENERAL** | **IMPACT:** Local
**DEDICATED**
**FEDERAL**

**Summary of Legislation:** *Bonds:* With respect to certain bonds issued, or leases entered into, by redevelopment commissions and certain other local government entities for various redevelopment and economic development purposes, this bill provides that: (1) the maximum term of the bonds or leases may not exceed 30 years; and (2) capitalized interest may be paid from the bond proceeds for not more than two years.

*Decision-making Authority:* The bill provides that certain decisions with respect to tax increment financing (TIF) allocation areas are to be made by the legislative or fiscal body of the city, town, or county instead of the redevelopment commission or are subject to the approval of the legislative or fiscal body, including: (1) consent for tax abatements in an allocation area; (2) consent for enterprise zone investment deductions in an allocation area; (3) issuance of certain bonds; (4) use of the power of eminent domain; (5) applying for federal grants and selling bonds to federal agencies; and (6) payment of certain property tax replacement credits.

*Petition and Remonstrance:* This bill includes taxes allocated for a TIF allocation area in the definition of "property taxes" for purposes of the petition and remonstrance process.

*Redevelopment Commissions:* The bill requires appointment of a school board member to serve as a nonvoting adviser to each redevelopment commission. It provides that the members of a county redevelopment commission are to be appointed by the county executive and the county fiscal body (instead of all appointments being made by the county executive).

*Project Area Amendments:* The bill revises the procedures for amending the resolution or plan for a redevelopment project area. It requires, for an amendment that enlarges the boundaries of an area, a finding that the existing area does not generate sufficient revenue to meet the financial obligations of the original project. The bill prohibits enlargement of an economic development area unless the original area does not generate sufficient revenue for the project. It also repeals certain provisions concerning the procedure for amending a resolution previously adopted by a redevelopment commission.

*Economic Development Areas:* The bill provides that an economic development area must meet the criteria for an area needing redevelopment.

*AV Reallocation to Taxing Units:* The bill requires a redevelopment commission to annually notify the county auditor and the county or municipal fiscal body of the amount of assessed value that may be reallocated from the commission to other taxing units.

**Effective Date:** Upon passage; July 1, 2008.

**Explanation of State Expenditures:**

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** All of the proposed changes in this bill are prospective. The bond provisions do not affect bonds that have already been issued.

*Bonds:* Under current law, TIF bonds must mature within 50 years. This bill would reduce the maximum length of bonds issued after June 30, 2008, to 30 years. The 30-year limitation for new bonds could result in larger principal, but smaller interest payments each year. The size of new bond issues and the scope of related projects could be limited by the ability to pay off the bonds in a shorter time frame.

Currently, proceeds from TIF bonds may be used to pay interest on the bonds for up to five years, during construction. For bonds issued after June 30, 2008, the bill would reduce the maximum time for bond-funded interest payments to two years. This change could reduce the amount of interest paid from bond proceeds which could, in turn, result in a reduced bond principal.

Under current law, bond issues of $3 M or greater that are proposed by the redevelopment commission must be approved by the unit legislative body. After June 30, 2008, the bill would require the unit legislative body to consider all bond issues proposed by the redevelopment commission.

*Decision-making Authority:* Under current law, redevelopment commissions have authority to permit tax abatements and enterprise zone investment deductions in the allocation area, issue bonds, use eminent domain, apply for federal grants, and pay TIF-funded PTRC in the allocation area. Under this bill, the redevelopment commissions would, instead, make recommendations to the county or municipal legislative body that approved designation of the allocation area. Decision-making authority would be transferred to the county or municipal legislative body.

*Petition and Remonstrance:* Under current law, proposed TIF bonds are not subject to the petition and remonstrance procedure. Under this bill, the petition and remonstrance process would apply to TIF bonds.

*Redevelopment Commissions:* Under current law, <u>municipal</u> redevelopment commissions are comprised of five voting members. Three members are appointed by the municipal executive and two members are appointed by the municipal legislative body. In addition to these members, under the bill, the municipal executive would appoint a nonvoting advisory member. The advisor must be a member of a school board in a school corporation that wholly or partially includes the area served by the commission.

Under current law, county redevelopment commissions are comprised of either five or seven voting members, all of whom are appointed by the county executive. The number of members is determined by county ordinance.

Under the bill, the county executive would appoint three members and the county fiscal body would appoint two members for a five-member commission. For a seven-member commission, the county executive would appoint four members and the county fiscal body would appoint three members. In addition to these members, the county executive would appoint a nonvoting advisory member. The advisor must be a member of a school board in a school corporation that wholly or partially includes the area served by the commission.

*Project Area Amendments:* Under current law, a redevelopment commission that proposes to amend the resolution or plan must find that (1) the amendment is reasonable and appropriate in relation to the original resolution or plan and the purpose of the statute, and (2) the amended resolution or plan conforms to the unit's comprehensive plan. The commission must conduct a public hearing on the matter.

If the amendment enlarges the allocation area, then under the bill the commission must also find that the existing area does not generate sufficient revenue to meet the obligations of the original project.

*Economic Development Areas:* Current law defines an "area needing redevelopment" as an area in which normal development and occupancy are undesirable or impossible because of any of the following:
(1) Lack of development.
(2) Cessation of growth.
(3) Deteriorated or deteriorating improvements.
(4) Environmental contamination.
(5) Character of occupancy.
(6) Age.
(7) Obsolescence.
(8) Substandard buildings.
(9) Other factors that impair values or prevent a normal use or development of property.

Under current law, a redevelopment commission may determine that an area in the redevelopment district is an economic development area. It must find that the plan for the economic development area:

1. Promotes significant opportunities for the gainful employment of its citizens;
2. Attracts a major new business enterprise to the unit;
3. Retains or expands a significant business enterprise existing in the boundaries of the unit; or
4. Meets other purposes of the statute.

The area does not have to be an area needing redevelopment.

Under this proposal, actions taken in an economic development area established or added after June 30, 2008 could only affect real property that meets the criteria of an area needing redevelopment.

*AV Reallocation to Taxing Units:* Currently, the redevelopment commission must notify the county auditor each year if the taxes payable on the allocated AV will exceed the amount needed to pay obligations and reimburse the county or municipality for expenditures made on the commission's behalf.

This bill would require the redevelopment commission to provide written notice each year to the county auditor, the county or municipal fiscal body, and the fiscal offices of the other taxing units that wholly or partially include the area served by the commission. The notice must state (a) the amount by which the revenues will exceed obligations or (2) that there is no excess.

*Background:* In 2006, $8.5 B in real property AV and $935 M in personal property AV were tiffed for a total TIF AV of $9.4 B. The net tax (after TIF-funded PTRC) generated by the TIF AV was $229.8 M.

**Explanation of Local Revenues:**

**State Agencies Affected:**

**Local Agencies Affected:** Redevelopment commissions; Civil taxing units and school corporations.

**Information Sources:** Local Government Database.

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